CALIFORNIA INDEPENDENT PETROLEUM ASSOCIATION

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May 28, 1997

Mr. David S. Guzy
Chief, Rules and Procedures Staff
Mineral Management Service
P.O. Box 25165, MS 3101
Denver, CO 80225

Re: Notice of Proposed Rulemaking, 62 Fed. Reg 3742 (January 24, 1997)

Dear Mr. Guzy:

The California Independent Petroleum Association (CIPA) appreciates the opportunity to comment on the Mineral Management Service's (MMS) proposed rule concerning the determination of crude oil royalties on oil produced from federal leases. CIPA is a non-profit trade association representing approximately 500 companies involved with the exploration and production of oil and gas in the state of California.

CIPA supports efforts to ensure that MMS receives market value for federally produced crude oil. However, CIPA cannot support the current MMS proposal because this would establish an arbitrary price that producers would be required to pay royalties on. Independent operators are price takers, not price setters. Under the current proposal, the price for California heavy oil would be indexed on crude oil produced from Alaska's North Slope (ANS).

The proposed method for "establishing" fair market value off ANS has a number of flaws. Analysis undertaken by some CIPA member companies has determined a difference in the price they received to the indexed proposal price of $0.50 to $1.00 per barrel. Simply put, this rulemaking would require producers to pay royalties based on a value in excess of the price actually received at the wellhead.

ANS prices even after the adjustment for the location and quality differentials, do not reflect the value of production from California heavy oil fields. ANS crude is substantially different from California heavy crude. ANS crude is typically a light 28 degree gravity crude and is transported primarily by tanker; ANS is priced off of NYMEX based upon foreign light competition; ANS crude can be refined in any refinery and ANS prices are determined by a single Alaskan producer. California heavy crude is typically 11-12 degrees API gravity; refinery facilities are limited; transportation options are limited and its market value is determined by regional conditions.

One way to ensure that the MMS receives a fair market price for its crude would be to establish a mechanism to receive royalty-in-kind. This approach would generate little, if any, additional burden to the operators.

CIPA understands many in the oil and gas producing community are concerned with this proposal and is hopeful that MMS will continue to use existing rules until all of the outstanding issues are adequately addressed, including how the value of California heavy crude produced from Federal leases is going to be established.

CIPA is grateful for the opportunity to respond to this proposal. Please feel free to contact me should you have any questions or concerns with CIPA's comments.

Sincerely,

David Gilbert

David Gilbert
Director of Environmental and Public Affairs